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FM AMEMBASSY MONROVIA
TO RUEHC/SECSTATE WASHDC 1128
INFO RUEHZK/ECOWAS COLLECTIVE
RUEHRH/AMEMBASSY RIYADH 0008
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E.O.12958: N/A
TAGS: ECON EAID EFIN PREL LI
SUBJECT: WITHDRAWAL OF SAUDI LOAN IMPERILS LIBERIA'S PORT REFORM

¶1. (SBU) SUMMARY: The Saudi Development Fund may be unable to fulfill its promise to provide a $50 million soft loan to renovate the Freeport of Monrovia, after Saudi Arabia and Liberia were unable to reschedule outstanding debt on terms comparable to the Paris Club. Without the Saudi loan, the GOL will be forced to grant the port management concession to a company willing to rehabilitate the port, with the expectation that the concessionaire would raise port fees to recoup that investment. In an import-dependent country such as Liberia, the loss of the Saudi loan may translate into higher prices for food and other essentials, hitting the poor and small businesses hardest for years to come. If President Ellen Johnson Sirleaf's bilateral lobbying fails, it is likely the GOL will urge the USG to intervene with the Saudis. Post believes a State Department response should include a demarche to the Saudi government to continue a dialogue on concluding a deal for partial debt forgiveness. END SUMMARY.

¶2. (SBU) In November 2008, Liberia announced plans to convert a dilapidated and inefficient state-owned port system into a public-private partnership, hoping to generate revenue for the government and reduce shipping costs for businesses. The Freeport rehabilitation scheme was launched in February 2009, with a call for expressions of interest to develop and operate the port. The National Port Authority issued a needs assessment estimating that port renovation would cost approximately $50 million. The only question was whether the GOL could rehabilitate the port before granting the concession, thus improving its negotiating position with port management companies, or if it would be forced to delegate an expensive construction project to the future concessionaire.

¶3. (SBU) A Saudi economist came to Monrovia in February to assess the port, and the Saudi Development Fund subsequently offered to provide a $50 million highly-concessional loan to renovate the marginal wharf. Although the terms of Liberia's Poverty Reduction and Growth Facility (PRGF) prohibited government borrowing, Post and the U.S. Treasury believed the expected rate of return on such a project merited a one-time exception. After some lobbying from the U.S. Executive Director's office, the International Monetary Fund approved a modification to Liberia's PRGF, and lifted the zero-borrowing ceiling for the port loan.

¶4. (SBU) Vishal Gujadhur, advisor to Minister of Finance Augustine Ngafuan, told Econoff June 24 that the agreement for the loan may unravel over the issue of $26 million in outstanding debt that Liberia contracted during the 1980s and 1990s. The Saudi Development Fund's charter prohibits it from forgiving principal on outstanding debt. Yet the GOL cannot repay in full, or it risks violating its agreement with the Paris Club and threatening all debt forgiveness under the Highly-Indebted Poor Country (HIPC) Initiative. The HIPC Initiative requires all non-Paris Club members to accept three cents on the dollar for all Liberian debt. The GOL offered to repay the principal in full over 100 years, making the net present value of the debt comparable to the 97 percent loss Paris Club creditors will accept. However, "the Saudis were not

amused," Gujadhur noted.

¶5. (SBU) Without the Saudi loan, any would-be concessionaire will be forced to invest considerable capital in port renovation. The GOL has tendered a fixed concession, which requires the concessionaire to pay a flat annual fee to the government in exchange for port revenues. Consequently, government revenues will be unaffected by the loss of the Saudi-funded port renovation, but the private port manager will raise port fees in order to recoup an upfront investment.

¶6. (SBU) A hike in port fees would hit the poor and small businesses hardest. Liberia imports over 90% of its foodstuffs and exercises minimal control over the money supply, so higher prices for imports always translate into inflation: in August 2008, when global commodity prices hit their peak, headline inflation in Liberia reached 26%. Given that the minimum wage for government workers is fixed at $80 per month, any inflation will erode their already-modest purchasing power. At the same time, the Ministry of Commerce and Industry imposes price ceilings on staple goods, and local merchants complain they are forced to absorb rising transportation costs.

¶7. (SBU) President Sirleaf intends to petition the Saudi government at the highest levels to permit an exception to the Saudi Development Fund's charter, Gujadhur said. The GOL hopes to persuade the Saudis to provide further grants to cancel a portion of the $26 million, and reschedule the rest on HIPC-comparable terms. The Saudis have considered establishing a diplomatic post in Liberia for some time, and if they do open a consulate or embassy, the Ministry of Finance (MOF) believes the inaugural ceremony may be the appropriate occasion to announce both debt forgiveness and the port

loan. If the President's intervention is unsuccessful, as the GOL expects it will be, the MOF alerted Econoff that the President may appeal to the U.S. for help with the Saudis.

¶8. (SBU) COMMENT: Given that other donors have declined to finance port renovation, post believes the Saudi loan constitutes Liberia's best chance to avoid the expensive consequences of a concessionaire-funded reconstruction. We understand that Saudi Arabia has sometimes frustrated the Paris Club in the past, but in fact has offered partial debt forgiveness to other HIPC borrowers. If the Saudi Development Fund is not immune to persuasion, then the USG would be in the best position to affect a meaningful savings for the Liberian people. At a minimum, we should encourage the Saudis to continue their discussions with the Liberians.

THOMAS-GREENFIELD